



Innovative Solutions Prove The Value in Brownfields Lending



Brownfields redevelopment plans along the river in Des Moines, Iowa.

Finding Unique Financing Solutions

While redeveloping brownfields makes environmental sense, often the deciding factor in returning abandoned properties to productive use is whether a particular deal makes financial sense. Financial institutions make that determination based on a number of factors, including a firm understanding of the potential returns and a fair characterization of the risks. The Cities of Des Moines, Iowa and Wheeling, West Virginia have each collaborated in a unique way—with a federal lender and a local, community-based financial institution—to complete both a picture of the risks and rewards and a financing package for redevelopment. The results of these innovative collaborations not only include cleaned up and redeveloped properties, new businesses, and new jobs, but also increased confidence for financing entities that brownfields lending can make sense.

For Des Moines, Iowa, a \$2 million injection from the Federal Home Loan Bank (FHLB) is what private lenders and developers needed to make the city's Riverpoint West project more viable. Des Moines received an EPA Brownfields Assessment grant in August 1998 and started performing environmental assessments on more than 100 properties throughout the Des Moines area. With the objective to redevelop blighted and underutilized industrial tracts of land, the city set out to leverage funding to complete redevelopment on targeted properties.

South of downtown Des Moines, a former steel foundry, chemical manufacturing facility, and rail yards scar approximately 300 acres along the Raccoon River. A \$200 million redevelopment project that will create more than 750 housing units and 450,000 square feet of commercial and retail space is expected to rejuvenate the 125-acre developable area, helping to extend the diversity of services offered and support commercial uses for downtown. Des Moines Brownfields Showcase Community Pilot Manager Ellen Walkowiak explains, "A representative from the Federal Home Loan Bank of Des Moines became familiar with the project and helped the FHLB take an innovative approach to financing the project. The FHLB's use of funds as an equity investment is the first of its kind in the nation." FHLB's equity investment will make the financial breakdown more attractive to lenders because the loan to value (LTV) ratio will be more favorable and less risky.

JUST THE FACTS:

- The Cities of Des Moines, Iowa and Wheeling, West Virginia each discovered unique financing collaborations that enabled their brownfields redevelopment projects to move forward.
- In Des Moines, 125 acres that encompass a former steel foundry, chemical manufacturing facility, and rail yards are being redeveloped into more than 750 residential units and 450,000 square feet of commercial and retail space through a financing arrangement with the Federal Home Loan Bank.
- The Wheeling, West Virginia Brownfields Pilot collaborated with federal agencies and multiple local organizations to obtain financing for the transformation of three former warehouses into a new, multi-million dollar business plaza.

"A representative from the Federal Home Loan Bank (FHLB) of Des Moines became familiar with the [\$200 million, mixed-use, brownfields redevelopment] project and helped the FHLB take an innovative approach to financing the project. The [bank's] use of funds as an equity investment is the first of its kind in the nation." — Ellen Walkowiak, Des Moines Brownfields Showcase Community Pilot Manager

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Brownfields properties often appraise at lower dollar amounts due to perceived or potential environmental risks or the often deteriorated condition of nearby properties. It is not until the redevelopment area truly starts to turn around that properties appraise for higher amounts and LTV ratios become more favorable to lenders and borrowers. But as Walkowiak explains, in the case of Des Moines, “The equity investment is already affecting perceptions of property values in the Riverpoint West area and is expected to improve the LTV so that private banks will lend on the housing commercial project.” Other financing proposed to be used includes tax abatement, tax increment financing, the EPA Brownfields Cleanup Revolving Loan Fund, Enterprise Zone tax credits, and other sources.

This innovative financial approach by the FHLB is essential to the Des Moines Brownfields Pilot, just as creative financing approaches have been to the Wheeling, West Virginia Pilot. The city partnered with the Ohio Valley Industrial and Business Development Corporation (OVIBDC) to assemble a unique brownfields financing package for the Wheeling Stamping Building project.

In May 1998, the City of Wheeling was awarded a \$200,000 EPA Brownfields Assessment Pilot to assist the city in assessing brownfields for potential redevelopment opportunities. South of Wheeling’s central business district, the Wheeling Pilot has focused its redevelopment efforts on an industrial and warehouse-laden area that has blighted the banks of the Ohio River for decades. Though many structures have deteriorated beyond repair, the Wheeling Stamping Building, a series of three warehouses constructed between 1890 and 1905, has retained its architectural integrity. Local leaders believed that the 88,000 square-foot structure and surrounding area could be renovated and once again be an economic engine and community cornerstone. Obtaining financing for the estimated \$7 million renovation would have been extremely difficult for the city and OVIBDC without at least a portion of the building being leased.

The city and a number of non-profit groups assembled a financing assistance package that included a \$1 million Brownfields Economic Development Initiative (BEDI) grant and a \$2.25 million Section 108 loan guarantee from the U.S. Department of Housing and Urban Development (HUD); \$2 million from the Wheeling National Heritage Area Corporation; and a \$3 million loan secured by the OVIBDC.

Stakeholders realized that in addition to public improvements and historic preservation activities, specific improvements necessary to attract a tenant (e.g., interior building and telecommunications upgrades) would need to be made. The flexibility of HUD’s Section 108 loan program helped to overcome this barrier. The 108 loan was used for interim financing until a private tenant was recruited.

Despite this successful financing approach, a funding gap still remained as a result of parameters on how some of the funding could be used. A consortium of faith-based organizations in the Wheeling area saw value in the project and decided to pool resources to provide the necessary gap financing. The consortium loaned \$1 million to the project at a below-market rate. If after 10 years the tenant is still in the facility, the loan converts to a market rate. This arrangement allows sufficient time for the project to put itself on stable financial footing. Melissa Thompson, Wheeling Brownfields Pilot Manager explains, “The success of the Celeron Plaza/Wheeling Stamping redevelopment project was due to the collaboration of many partners, each of whom stepped forward to fund various significant portions of the project.



Wheeling, West Virginia's new Celeron Plaza, built on a former brownfield.

The \$1 million loan from the local coalition of churches was an innovative approach for funding a brownfields project and a unique opportunity for an economic development venture in Wheeling.”

Once financing was in place, the Office of the Governor and the West Virginia Development Office increased their tenant recruitment efforts and secured Orrick, Herrington & Sutcliffe, a San Francisco-based international law firm. Orrick located their Global Operations Center in Wheeling’s new Celeron Plaza in April 2002 and has leveraged half of the committed 250 financial and technology-related jobs, with average annual salaries of more than \$37,000.

The resourcefulness of the Wheeling Brownfields Pilot and its public and private partners assured that the redevelopment of the Stamping Building was successful. Across the country, brownfields projects are finding creative financing options to back their redevelopment efforts. These projects allow the financial services community to see new opportunities associated with brownfields financing. In recent years, many major banks have created environmental lending products and insurance companies have developed secured creditor policies to protect brownfields lenders. Together, communities and private interests are realizing the value in lending on brownfields.

More information on brownfields financing can be obtained at <http://www.epa.gov/brownfields> or by contacting the EPA Office of Brownfields Cleanup and Redevelopment (OBCR) at (202) 566-2777.

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<http://www.epa.gov/brownfields/>**